

INSTITUTIONAL CHANGE AND INTER-INSTITUTIONAL COOPERATION – CHALLENGE AND OPPORTUNITY FOR ECONOMIC GROWTH AND INNOVATION

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Abstract

The knowledge-based economy/society challenges and changes organisations, institutions and job contents generated by new requirements and the increasingly complex and dynamic environment in which they are compelled to act.

Institutions and organisations, public or private, need to adjust rapidly and changes in their own action sphere and in environments surrounding them for ensuring sustainability, surviving and competitiveness. Assessment tools and analytical indicators should be developed as institutional analysis will become increasingly relevant for economy and society. Innovation turns into one of the key-concepts also for institutions and institutional change in increasing efficiency and effectiveness.

Key-words: *institutional change, inter-institutional cooperation, economic development, social cohesion, innovation*

JEL Classification: D₈₅, H₈₀, O₁₁, O₃₁, O₃₃

Preliminary considerations

In the sociological, political and economic theory a fine cut is made between *institutions and organisations*: the first are considered to represent the set of norms, rules, constraints to which two or more people adhere in their roles within society, they are the basic conventions governing the relationships between the respective individuals, while *organisations* are the expression of collective goals embodied either in political, economic, and education bodies, or in various social groups [Jonsson, 2007]. The daily practice eludes this distinction, using the terms interchangeably, with the outcome of unclear perspective in efficiency and performance evaluation.

Yet, as North already underpinned, with respect to economic performance, institutional change plays a decisive role in rendering efficiency and growth potential to economy [North, 1990] and with respect to innovation in various economic sectors [Halge&Meeus, 2006]. Thus, organisations must find the right mix between “changing” and “learning” as to ensure stability while keeping pace with developments. More specifically, a “transaction cost for the functioning of economic markets” still needs to be identified from the institutional perspective

and the institutional change analysis should be integrated into political and economic analysis for supporting performance of a country's economy and society.

While organisations can be evaluated based on overall performance, their capacity to learn and to change attuned to external influences, the institutions, in their clear-cut meaning of "arrangement between two or more individuals with respect to norms, procedures, roles played" are harder to assess/evaluate.

Institutions are the 'rules, constraints and control over human interactions from political, economic and social viewpoint'. They are structures playing a decisive role at political, economic and social level with respect to market performance and welfare, while organisations are forms of associations based on contracts of social, economic groups, etc.

Increasing institutional efficiency and effectiveness are research topics at international and European Union level, as knowledge-based society/economy, and globalization are dynamic processes which challenge the 'traditional agreements' of the institutional setting and increase the role of cooperation and collaborative approaches. At European Union level researches in the field are directed according to their focus on three major levels: *inter-level* – cooperation between the EU institutions and public authorities of the member countries; *inter-institutional* – cooperation between EU institutions and *intra-institutional* – the internal politics and relations in the EU.¹

These differentiations, more political in nature and adopted by evolutionary economics are decisive when used in international contexts. They maintain relevance even when limited to a country-based analysis regarding the functioning and efficiency of institutions/organisations. This type of analysis should raise questions about the interest in and ability to cooperate of institutions and organizations at national/regional/local level, and possible measurements of the degree and efficiency of cooperation. This approach could contribute to increased institutional coherence and performance, facilitating fine-tuning to European-wide cohesion and convergence.

Inter-institutional/organizational cooperation in Romania

In Romania, *institutions* are defined as public bodies developing activities of social, cultural or administrative nature or activities with international relevance. *Organizations* are defined as forms of social/collective relationships according to legal norms on activity fields. In both understandings of the term, the issue of cooperation is an opportunity and challenge at the same time.

The past two decades of in-depth reform and transition to market economy in Romania brought about changes within institutions and organizations, and new ones were created.

These developments are relevant from economic viewpoint, as the way in which institutions and organizations work, their activities' efficiency influence the

¹ Thomas Christian, *Intra-institutional politics and inter-institutional relations in the EU: towards coherent governance?*, in "Journal of European Public Policy", 8:5, October 2005.

markets' functioning: whether financial, labour, industrial, services' or trade markets; national and individual welfare are often related to their overall performance. Thus, creating good relationships and cooperation tools between institutions/organization and between them and society at large can be decisive when aiming at a dynamic development such as the one triggered by the knowledge-based economy and society. If Romania as EU member country is to adhere to the targets of the knowledge-based economy and society and attain the objectives of *Europe 2020*, then inter-institutional/organizational cooperation and relations shall have a significant role to play.

Several difficulties requiring consideration and tackling are related to: legal framework; organisational structures; different formal and informal practices of national/EU institutions; very specific decision-making procedures at EU level; the institutional and organizational human capabilities, their capacity to adjust and adopt rapidly to externally triggered changes; their innovative capacity, as they evolve in a complex, dynamic environment of increasing demands and expectations.

The overall economic performance and growth in Romania, social cohesion at national and European level are strongly influenced by outcomes delivered by institutions and organizations. The current dynamics in economy and society require from them increased cooperation capacity, integrated, streamlined procedures, rules and protocols for ensuring the functioning of political, economic and social levels.

The inter-institutional/organisational cooperation capacity needs to be translated into measurable parameters. Process, output and performance indicators need to be developed for their own and inter-institutional performance.

In Romania, public institutions, specifically public administration institutions still need to agree on an assessment toolkit, in accordance with the common assessment framework and tools developed at EU and international level. Already toolkits covering main aspects regarding financial and human resources management, government policy making, service delivery and initiative/leadership capacity are in place. Hence, some simple, useful tools that would require further assessment and improvement regarding their robustness could be categorised as follows:

- *For financial management*: the involvement/participation degree to the yearly budget determination; compliance/failure to comply with budgetary limits; half-yearly/yearly budgetary allocations' efficiency with particular emphasis on investments: with impact on society, dedicated to institutional improvement, increasing the skills', and 'soft skills' level of the staff; openness degree and flexibility in cooperation, etc.

- *Human resources management*: recruitment policies, clear job descriptions; clearly defined job contents and responsibilities, tasks, delegation and attributions reach; overall and individual evaluation sheets based on measurable performance indicators, etc.

- *Policy-making*: the consultation process criterion interpreted based on items for indentifying whether inter-institutional/organisational consultations take

place about policy proposals; consultations' effectiveness, i.e. delivered outcomes; outcomes' relevance/impact; number of agreements reached transposed in status and process indicators, etc.; developing instruments for qualitative measurements. In this context, frequency of inter-institutional, for instance inter-ministerial cooperation should not be regarded as a possible indicator, as not quantity but quality is relevant.

– *Services delivered*: measuring satisfaction/non-satisfaction degree, timeliness and availability of information to 'customers', dissemination ways (to other institutions, organisations, general public) etc.

– *Initiative/leadership capability* relates to change adjustment capacity, negotiation and compromise ability to reach agreement at intra- and inter-institutional level; overcoming resistance inside and outside the institution's setting.

A useful example about the uses of this type of assessment framework is also indicative for inter-institutional cooperation. For brevity, reference shall be made only to the aspect of early school leaving prevention in the Romanian institutional setting.

Policy process refers to passing education and/or correlative or related policies and measures that would prevent early school leaving rate increase.

Human resources: teachers 'in the first line' dealing with school absenteeism leading to early school-leaving are selected based on their skills, more specifically 'soft' skills in approaching 'problem-children' and families; they are asked to define what support they think as required. Expected outcome: clear tasks for school and class teams involved in observing and preventing absenteeism and early school leaving; decrease of absenteeism by 20% by the end of the school year and diminishment of early school leaving by 10%².

Consultation process: relevant institutions to be involved in the process. These institutions covered a wide range from proximity police to health, labour-related institutions' and town-hall representatives. The challenge: the inter-institutional cooperation process of institutions for creating a well-designed operational framework for effectively preventing increases in the early school-leaving rate. All relevant partners/stakeholders sharing the common goal stated by the policy have also own agendas and interests that need to be fine-tuned in developing policies, actions and measurable outcomes. Expected outcomes were: formal protocols; common regulations, procedures dealing with absenteeism and early school leaving. The inter-institutional consultation process decided on roles and attributions of each institution involved.

Financial management: estimates were made considering the two most relevant aspects: the government budget allocated for families with children facing difficulties and possible alternative financial resources to aid children in danger of early school leaving due to their economic/social circumstances.

Services delivered: an integrated monitoring system for school absenteeism and early-school leavers. Creating specialised centres for children and teenagers in

² Percentages are hypothetical.

danger of, or who have already abandoned school for various reasons to assist in sustaining the policy.

Initiative/leadership: the initiative and leadership was assumed by two of the involved stakeholders and the innovative approach was present in designing a single nation-wide monitor of absenteeism and early school-leaving based on economic and social criteria.

The project registered only partial success and highlighted the weaknesses of the inter-institutional cooperation in Romania. The most relevant were both objective and subjective in nature: institutional settings provided for and required specific legal frameworks, rules, regulations and procedures; timeliness delays in concluding legal protocols, joint-orders; different institutional approach-angles, etc. One of the documents is still in revision process even though the project was finalised in the winter of 2010. Governmental and local authorities lack of financial support and corresponding budget, even if the other half was covered by stakeholders. Yet, the subjective facets were even more challenging: they were related to institutional and organisational culture, resistance to inside and outside change, the perception of the roles required and the absence of motivation due to absent incentives for the main actors. The debates between stakeholders revealed that assuming responsibilities, making-decisions and overcoming formal, informal and non-formal barriers in cooperation would require sustained training at management and executive levels now and in the future, to help personnel understand the role and importance of cooperation at intra- and inter-institutional level.

Even if the example is not directly related to economic outcomes, it is indicative of how inter-institutional cooperation success or failure can impact on economy: the school-leavers of today are the future unskilled or low-skilled workers. This implies losses of valuable human capital, further costs and investments for their training later on in life, the risk of low-paid jobs and increased social costs for ensuring the minimum social support network during their entire life-span.

Early-school leaving and absenteeism are two of the indicators referring to educational and correlative policies' performance and can aid in identifying financial, labour market, health and social policies that need reviewing in order to diminish this phenomenon and to improve the overall economic and social framework as most of the early-school leaving reasons relate to economic-social circumstances of children and their families.

The brief case-study was intended to highlight the way in which inter-institutional cooperation can improve policies not only in particular cases, if successful, but also provide information, valuable data and insights for policies, measures and actions in other correlative or related fields. This type of cooperation generates positive externalities, opportunities for the creation of new jobs, increases institutional skills, efficiency and effectiveness, and creates premises for improved institutional dynamics and enables innovation inclusion in the approach.

Instead of conclusions

Due to Romanian history and traditional perspective institutional/organizational change has been done at a rather slow pace, and while inter-institutional/organisational cooperation has been formally introduced very often circumstances show malfunctions in practice.

The knowledge-based economy and society depend strongly on technological progress, innovation capacity, hence digitalisation and innovation impact on institutions by determining the so-called 'institutional discontinuous change'. Usually, institutional change is perceived as discontinuous as the set of rules, norms and regulations and sanctions/constraints defining the institutional setting hinder quick change/adjustment. The traditional institutional analysis fails to identify possible analytical indicators that could be used for assessments in this respect. Still, qualitative indicators regarding their efficiency could be developed by using measurable data provided by institutions based on budget, available human resources, policy and activity outcomes developed for their specific intervention field.

One important issue for further research to improve assessment tools for institutional performance, including inter-institutional cooperation is related to the coordination modes of institutions in Romania and at European level.

The coordination modes refer to the various kinds of hierarchy determined by institutions involving various kinds of actors from market to non-market ones, according to the institutional bundle of rules. These coordination modes have relevance for three major disciplines: economics (markets), political science (state) and sociology (organisations, associations and inter-organizational relationships) and highlight the importance of the modes in policy initiatives involving deregulation. At the same time, they indicate which of the modes are fostering more transfer of knowledge and generate innovation and allowing for accessing tacit knowledge. Starting from these premises, attempts can be made to develop assessment frameworks for institutions, institutional change and inter-institutional cooperation that would incorporate also analytical indicators to showcase the critical points for economic/social performance or lack thereof.

Apparently, non-market coordination modes seem to be broader and more supportive for collective learning and knowledge-transfer involving a wider set of actors, and encouraging institutions to improve their activity. Therefore finding the right balance between market and non-market modes could be stimulating increased efficiency. On the other hand, the market coordination mode while opposing abrupt change of institutions' could be more efficient in stimulating ground-breaking, frontier-type innovation based on provided incentives [Hage&Meeus, 2006].

Romania, in the aftermath of the economic-financial crisis could take advantage of the structural changes occurring within the European and world economy and foster a 'hybrid model' of smoother and sustained inter-institutional and inter-organisational change which encourages innovation as factor impacting on inter-institutional/organisational change. In turn, inter-institutional/organisational change could become a determinant factor in enhancing the national innovation system and thus increasing economic competitiveness of the country.

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